

Message Text

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PASS E FOR COOPER, EUR FOR HARTMAN, WHITE HOUSE FOR
HENRY OWEN, NSC FOR HORMATZ, CEA FOR SCHULTZE, TREASURY
FOR SOLOMON

E.O' 11652: GDS
TAGS: OECD, ECON, EFIN
SUBJECT: SUMMIT PREPARATIONS: REVISIONS IN OECD
SECRETARIAT'S PAPER ON THE ECONOMIC SITUATION IN THE
SPRING OF 1977

REF: A) OECD PARIS 11635, B) OECD PARIS 12282

1. IN LIGHT OF DISCUSSION AT EPC RESTRICTED BUREAU
MEETING IN WASHINGTON ON APRIL 29, OECD SECRETARIAT HAS
REVISED CERTAIN PARTS OF THE PAPER ENTITLED "THE
ECONOMIC SITUATION IN THE SPRING OF 1977", DATED
APRIL 15 (REF A), WHICH WAS DISCUSSED AT THAT MEETING.
THESE REVISIONS REFLECT THE SECRETARIAT'S LATEST
FORECASTS ON THE BASIS OF THE POSITION AS KNOWN TO THE
SECRETARIAT AS OF MAY 2. THESE SECRETARIAT REVISIONS
SHOULD BE USED TO ADJUST THE TEXT OF THE ORIGINAL
PAPER, WHICH WE UNDERSTAND WILL BE USED AS BACKGROUND
FOR THE SUMMIT.

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2. THE TEXT OF THE ORIGINAL DOCUMENT, DATED APRIL 15,
REMAINS THE SAME, EXCEPT FOR THE FOLLOWING TEXTUAL
PARAGRAPHS WHICH ARE REPRODUCED IN TOTO IN AMENDED
VERSION, AND FOR THE INDICATED CHANGES IN TABLES 2,
3, AND 4:

3. TEXT OF AMENDED PARAGRAPHS FOLLOW.

8. AFTER THE PAUSE IN THE EXPANSION DURING THE MIDDLE QUARTERS OF 1976, THERE WERE SIGNS OF A PICK-UP AROUND THE END OF THE YEAR. HELPED BY THE POLICY MEASURES TAKEN OR PROPOSED IN SOME IMPORTANT COUNTRIES, OECD OUTPUT MAY RISE BY ABOUT 4 PER CENT THIS YEAR, POSSIBLY ACCELERATING SOMEWHAT TO AN ANNUAL RATE OF 4-1/2 PERCENT IN THE SECOND HALF OF THE YEAR. COUNTRIES' OWN FORECASTS ADD UP TO A marginally stronger picture, BUT INCLUDE IN SOME CASES A NORMATIVE ELEMENT. NEVERTHELESS, BOTH SECRETARIAT AND NATIONAL FORECASTS SUGGEST THAT GROWTH IN THE AREA AS A WHOLE WILL, FOR THREE SUCCESSIVE HALF-YEARS, HAVE BEEN BELOW THE RATE ENVISAGED BY THE MEDIUM-TERM STRATEGY, THE SITUATION VARYING FROM COUNTRY TO COUNTRY, WITH UNDESIRABLE CONSEQUENCES ON THE UNEMPLOYMENT AND INVESTMENT FRONTS AND NO COMPENSATING GAIN IN RESPECT OF BETTER PRICE TRENDS.

(I) IN THE UNITED STATES, FINAL DOMESTIC DEMAND PICKED UP TOWARDS THE END OF 1976, AND IN THE FIRST QUARTER, DESPITE ADVERSE WEATHER CONDITIONS, REAL GNP ROSE AT AN ANNUAL RATE OF 5.2 PER CENT. WITH THE INDICATORS POINTING TO A STRONGER UNDERLYING TREND IN ACTIVITY IN RECENT MONTHS THAN ASSUMED EARLIER, AND WITH INFLATION ACCELERATING, THE ADMINISTRATION HAS WITHDRAWN THE \$11 BILLION TAX REBATE AND THE \$2 BILLION INCREASE IN THE INVESTMENT TAX CREDIT, LEAVING ONLY ABOUT \$2 BILLION OF THE FISCAL POLICY MEASURES PROPOSED FOR THE CURRENT FISCAL YEAR

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(ENDING END-SEPTEMBER); THE \$15.9 BILLION (NEARLY 1 PER CENT OF GNP) MEASURES PROPOSED FOR FISCAL 1978 ARE BEING MAINTAINED. ON THIS BASIS, REAL GNP GROWTH COULD ACCELERATE TO AN ANNUAL RATE OF 6 PERCENT IN THE SECOND HALF OF THE PRESENT YEAR, PARTLY REFLECTING A SURGE IN INVENTORY FORMATION FROM THE LOW RATES OF THE LAST SIX MONTHS. SOME SLOWDOWN IN GNP GROWTH IS LIKELY TOWARDS THE END OF THE YEAR AND INTO 1978 WHEN STOCKBUILDING HAS REACHED A MORE NORMAL LEVEL (1).

(II) IN JAPAN, DOMESTIC DEMAND AND OUTPUT HAVE REMAINED

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SLUGGISH AND WEAKER THAN EXPECTED EARLIER, AND THE AUTHORITIES HAVE RECENTLY ANNOUNCED MEASURES TO STIMULATE DEMAND: HIGHER PUBLIC EXPENDITURE AND CUTS IN PERSONAL INCOME TAX ESTIMATED BY THE SECRETARIAT TO BOOST ACTIVITY IN 1977 BY 1/2 TO 3/4 PER CENT OF GNP. BY THE SECOND HALF OF THE YEAR, AFTER A YEAR OF DISAPPOINTING PERFORMANCE, GROWTH COULD BE BACK UP TO THE SORT OF RATE SUGGESTED AS APPROPRIATE IN THE SECRETARIAT SCENARIO, BUT BUSINESS CONFIDENCE REMAINS WEAK AND DOUBT REMAINS AS TO HOW SUSTAINABLE THE EXPANSION WILL BE; THERE IS A RISK THAT THE EXPANSION WILL SLOW DOWN AGAIN IN 1978 WHEN THE EFFECT OF THE RECENT MEASURES WILL HAVE DIMINISHED. THE YEN HAS APPRECIATED BY ABOUT 5-3/4 PER CENT IN EFFECTIVE TERMS SINCE THE BEGINNING OF THE YEAR.

(III) IN GERMANY, ACTIVITY PICKED UP IN THE FOURTH QUARTER OF 1976, BUT RECENT INDICATORS HAVE BEEN RELATIVELY WEAK. THE AUTHORITIES HAVE ANNOUNCED A 3-4 YEARS MEDIUM-TERM INVESTMENT PROGRAMME OF DM 16 BILLION; ORDERS OF ABOUT DM 3.5 BILLION (0.3 PER CENT OF GNP) ARE SCHEDULED TO BE PLACED IN 1977. ON THIS BASIS, REAL GNP COULD RISE
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BY ABOUT 4 PER CENT THIS YEAR, BUT WITH LITTLE CHANGE IN LABOUR MARKET CONDITIONS AND POSSIBLY SOME DECELERATION DURING THE YEAR. THE BASIC DIFFERENCE BETWEEN THE SECRETARIAT'S GNP FORECAST AND THE OFFICIAL FORECAST OF 5 PER CENT IS STRONGER EXPORT GROWTH IN THE OFFICIAL VER-

SION: GREATER BUOYANCY OF DOMESTIC DEMAND WOULD FOLLOW THIS DEVELOPMENT BUT NOT LEAD THE STRONGER GROWTH PROCESS.

(1) THE SECRETARIAT'S QUARTERLY GNP FORECAST IS AS FOLLOWS:

Q1	Q2	Q3	Q4
5.2	7.7	5.9	5.0

BETWEEN THE FOURTH QUARTERS OF 1976 AND 1977, GROWTH SHOULD AMOUNT TO NEARLY 6 PER CENT.

COUNTRIES WHICH MIGHT BE CONSIDERED AS APPROPRIATE LEADERS, THROUGH RISING DOMESTIC DEMAND, IN THE WORLD RECOVERY PROCESS. THE FOLLOWING THUMB-NAIL SKETCHES APPLY TO MAJOR COUNTRIES WHERE THE REVERSE SEEMS TO BE THE CASE.

(I) IN FRANCE, RECENT INDICATORS HAVE BEEN BROADLY IN LINE WITH THE SECRETARIAT'S DECEMBER FORECAST OF A 3 PER CENT REAL GNP INCREASE BETWEEN 1976 AND 1977. BUT CERTAIN MEASURES TO INCREASE SOCIAL BENEFITS HAVE RECENTLY BEEN TAKEN, AND SOME EASING IN MONETARY POLICY IN THE FORM OF ADDITIONAL CREDITS AT PREFERENTIAL INTEREST RATES HAVE RECENTLY BEEN ANNOUNCED, WARRANTING A SLIGHT UPWARD REVISION OF THE EARLIER FORECAST. HOWEVER, CURRENT STATEMENTS BY THE AUTHORITIES UNDERLINE THE INTENTION TO PERSIST WITH THE STABILISATION PLAN ALREADY LAUNCHED AND TO CONFINE ALLEVIATORY POLICY TO SELECTIVE MEASURES TO REDUCE UNEMPLOYMENT AT ITS MORE NEURALGIC POINTS.

17. 1977 LOOKS LIKE BEING A RELATIVELY SLOW YEAR FOR THE GROWTH OF WORLD TRADE, AFTER THE RECOVERY - AND THE ANTICIPATORY BUILD-UP OF OIL STOCKS - IN 1976. WITH THE
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RATHER MODERATE RISE IN ECONOMIC ACTIVITY AT PRESENT EXPECTED, OECD'S IMPORTS MAY ONLY INCREASE BY ABOUT 7 PER CENT THIS YEAR, COMPARED WITH SOME 15 PER CENT IN 1976. THE VOLUME OF EXPORTS MAY ALSO RISE BY ABOUT 7 PER CENT THIS YEAR (AGAINST LAST YEAR'S 11 PER CENT); TRADE BETWEEN INDUSTRIALISED COUNTRIES MAY ONLY EXPAND RATHER MODESTLY, BUT BOTH OPEC AND NON-OIL DEVELOPING COUNTRIES MAY STEP UP THEIR PURCHASES CONSIDERABLY, GIVEN THE BOOST OF HIGHER COMMODITY PRICES TO THEIR OWN INCOMES. RECENT SPOT MARKET MOVEMENTS SUGGEST THAT OECD'S TERMS OF TRADE MAY DETERIORATE SIGNIFICANTLY THIS YEAR, INSTEAD OF IMPROVING AS PREVIOUSLY EXPECTED.

18. AS A RESULT, OECD'S CURRENT ACCOUNT DEFICIT IS NOW EXPECTED TO WIDEN SOMEWHAT FROM THE \$25 BILLION TO WHICH IT DETERIORATED LAST YEAR. THE OPEC SURPLUS WILL PROBABLY STAY IN THE \$40-45 BILLION RANGE. THE DEFICIT OF

THE NON-OIL LDGS - REPRESENTING THE NET TRANSFER OF REAL
RESOURCES TO THE DEVELOPING COUNTRIES - MAY STAY AROUND
THE \$25 BILLION MARK, A DEFICIT THAT THEY SHOULD BE ABLE

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TO FINANCE WITH LESS RESORT TO SHORT AND MEDIUM-TERM
BANK BORROWING THAN IN RECENT YEARS.

19. SOME DEVELOPING COUNTRIES HAVE HIGH EXISTING DEBT
SERVICING COSTS. AND SOME OF THEM, WITH PRECARIOUS
MATURITY STRUCTURES, MAY EXPERIENCE DIFFICULTIES IN
ROLLING-OVER THEIR DEBT. SERIOUS PAYMENTS PROBLEMS MAY
ALSO DEVELOP INSIDE THE OECD AREA, WITH THE DIVERGENCIES
BETWEEN THE POSITIONS OF INDIVIDUAL COUNTRIES LEADING TO
CONSIDERABLE STRAIN ON THE SYSTEM. SINCE ... REMAINDER
OF PARAGRAPH REMAINS THE SAME. END OF TEXTUAL CHANGES

4. TABLE 2 - GROWTH OF REAL GNP (PERCENT CHANGES,
SEASONALLY ADJUSTED, ANNUAL RATES):
ANNUAL AVERAGES GROWTH RATES -- IN COLUMN 1976/1975,
CHANGE U.S. FROM 6.25 TO 6; CHANGE "OTHER OECD COUNTRIES"
FROM 2.5 TO 3. IN COLUMN 1977/1976, CHANGE U.S. FROM
4.5 TO 5; JAPAN, FROM 5.25 TO 5; FRANCE FROM 3 TO 3.5;
U.K. FROM 1 TO 1.25; ITALY FROM 2 TO 1.75; CANADA FROM
3.5 TO 3; "TOTAL OF ABOVE COUNTRIES" FROM 4 TO 4.25;
"TOTAL OECD" FROM 3.75 TO 4.

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5. HALF YEARLY GROWTH RATES -- IN COLUMN 1976 I/1975 II, CHANGE GERMANY FROM 7.25 TO 7.5; FRANCE FROM 7 TO 5.5; U.K. FROM 3.25 TO 3.5. IN COLUMN 1976 II/1976 I, CHANGE U.S. FROM 3.5 TO 3.75; FRANCE FROM 3 TO 2.5; U.K. FROM 2 TO 1.5; "OTHER OECD COUNTRIES" FROM 2.5 TO 3.75; "TOTAL OECD" FROM 3 TO 3.25. IN COLUMN 1977 I/1977 II, CHANGE U.S. FROM 4.5 TO 5.25; U.K. FROM 0 TO 1.25; ITALY FROM 1.75 TO 1.25; CANADA FROM 3.5 TO 4; "TOTAL OF ABOVE COUNTRIES" FROM 3.75 TO 4.25; "OTHER OECD COUNTRIES" FROM 3 TO 1.75; "OECD EUROPE" FROM 2.75 TO 2.5; "TOTAL OECD" FROM 3.5 TO 4. IN COLUMN 1977 II/1977 I, CHANGE U.S. FROM 5.5 TO 6; JAPAN FROM 7 TO 7.25; FRANCE FROM 3 TO 4.5; U.K. FROM 2.75 TO 1.25; ITALY FROM 1 TO 0; CANADA FROM 3 TO 3.25; "TOTAL OF ABOVE COUNTRIES" FROM 5.25 TO 5; "OTHER OECD COUNTRIES" FROM 2.4 TO 2.5; "TOTAL OECD" FROM 4-4.5 TO 4.5.

6. TABLE 3 -- UNEMPLOYMENT; REVISED ESTIMATES FOR 1977:

	1977	
	FEBRUARY	DECEMBER
OECD TOTAL	14.7	15-15-1/4
U.S.	7.5	6.9
EUR TOTAL	5.4	6-6-1/4

7. TABLE 4 -- OECD TRADE VOLUMES AND PRICES (PERCENT CHANGES): CHANGE "OECD EXPORT VOLUME" FIGURES AS FOLLOWS: 1975, FROM -4.5 TO -4; 1976, FROM 10 TO 11. CHANGE "OECD IMPORT VOLUME" AS FOLLOWS: 1975, FROM -7 TO -7.5; 1977, FROM 7 TO 6.5. CHANGE "EXPORT AVERAGE
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VALUE" FIGURES AS FOLLOWS: 1977, FROM 8 TO 9.5. CHANGE "IMPORT AVERAGE VALUE" FIGURES AS FOLLOWS: 1976, FROM 7.5 TO 7; 1977, FROM 9 TO 11. "AVERAGE VALUE IN DOLLAR TERMS (EXPORTS OF MANUFACTURERS): CHANGE 1977 FROM 8 TO 9.

8. TABLE 4 - MEMORANDUM ITEM: SPOT PRICES OF THE NON-OIL COMMODITIES EXPORTS BY PRIMARY PRODUCING COUNTRIES (DOLLAR TERMS): CHANGE 1977 FROM 22 TO 25-30. CHANGE "UNIT VALUE ESTIMATES" IN MEMORANDUM ITEM AS FOLLOWS: 1973, FROM 10 TO 33.5 (FIGURE IN ORIGINAL PAPER WAS ERRONEOUS); 1974, FROM 29 TO 32.5; 1975, FROM -3 TO -1; 1976, FROM 6 TO 4; 1977, FROM 15 TO 15-20.
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